

# FTC FACTS for Consumers

## 'Net-Based Business Opportunities:



### *Are Some Flop-portunities?*

**S**cam artists selling fraudulent Internet-related business opportunities are trying to cash in on the Web's potential. Don't let them fool you. Although the Internet has vast commercial possibilities, every entrepreneur who buys into an online "opportunity" doesn't automatically find a pot of gold at the end of the rainbow.

You'll see fraudulent Internet-related business opportunities promoted on web sites and through email solicitations. But these frauds also are marketed through more traditional methods, including infomercials, classified ads and "advertorials" in major newspapers and magazines, telemarketing, trade show presentations, seminars and direct mail solicitations. Many of the scams target individuals who are not

*"Earn big bucks selling  
Internet-related  
products or services!"*

*"No computer experience  
or sales experience  
necessary!"*

technologically savvy. In fact, many pitches appear to take advantage of an entrepreneur's "Internet innocence."

# Facts for Consumers

The Federal Trade Commission has found that scam artists use many different methods to pitch a variety of business opportunities.

Here are a few examples:



**“Company A” promises that consumers can earn thousands of dollars a month if they join its multi-level marketing plan.**

**The pitch:** Recruit people to sell devices that provide television access to the Internet.

**The problem:** Everyone pays to join the program. It compensates participants based on how many people they recruit into the program, not on their retail sales of products to consumers. That makes the program an illegal pyramid scheme, not a bona fide multi-level marketing plan. Pyramiding generally is regarded as illegal because by mathematical necessity, nearly everyone who participates will lose their money. Compensation is based on recruiting, not on product sales. When there are no new recruits, the pyramid collapses.



**“Company B” says consumers can earn big money by providing access to the Internet.**

**The pitch:** Sell machines or kiosks that provide walk-up Internet access, for a fee, in public places like airports, upscale hotels and shopping malls. Consumers spend thousands of dollars for the machines, which the company promises will generate “amazing” earnings. What’s more, the company promises plenty of profitable locations to place the machines.

**The problem:** Rather than at the high-traffic locations the scam artists promise, the machines are placed in bars and pizza joints. Consumers can’t possibly make the earnings they were guaranteed.



**“Company C” advertises that consumers can earn more than \$150,000 as “Internet consultants.”**

**The pitch:** Sponsor free seminars to teach consumers how to “make money on the Internet.”

**The problem:** The seminar really is a high-pressure sales pitch for Company C’s Internet yellow pages or Internet mall advertising business opportunities. The company promises to deliver Internet and sales training for a fee of several thousand dollars. Consumers hoping to launch a lucrative enterprise never get the promised training and never earn the promised amounts.

The FTC urges you to investigate Internet-related business opportunities as carefully as you would check out any other business opportunity. Before you invest or buy into any business opportunity:

- Realize that seminar “trainers” or “consultants” often are there to sell you a business opportunity, not teach you Internet basics. In fact, they may be counting on your lack of experience with computers or the Internet.
- Investigate all earnings claims. Talk to others who have purchased the opportunity to see whether their experience supports the company’s claims. Visit previous franchise and business opportunity owners in person to reduce the risk of being misled by “shills” — people paid to give favorable reports. Never rely solely on the promoter’s list of references because it may contain shills.
- Demand to see the company’s claims in writing. In fact, get all promises in writing.
- Ask for a disclosure document. Most business opportunities are required to provide one, under the FTC Franchise Rule. The disclosure document should provide detailed information to help you compare one business with another. Be skeptical of companies that do not have disclosure documents.
- Check out the company with your local consumer protection agency, state securities agency, Attorney General’s office and Better Business Bureau in your area and the area where the promoter is located. A check with the BBB may not be foolproof, but it may show whether complaints have been filed about the promoter.

### ***For More Information***

---

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at [www.ftc.gov](http://www.ftc.gov). The FTC enters Internet, telemarketing, and other fraud-related complaints into **Consumer Sentinel**, a secure, online database available to more than 240 civil and criminal law enforcement agencies in the U.S. and Canada.

# Facts for Consumers



**Federal Trade Commission**  
Bureau of Consumer Protection  
Office of Consumer and Business Education

March 2000